



December 23, 2008

To the Honorable Board of Supervisors
Santa Cruz, California

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the County of Santa Cruz (County) for the year ended June 30, 2008, and have issued our report thereon dated December 23, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibilities under U.S. Generally Accepted Auditing Standards and OMB Circular A-133

Our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with the County Board of Supervisors' (Board) oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve the Board or management of their financial statement responsibilities.

In planning and performing our audit, we considered the County's internal control over financial reporting in order to determine our auditing procedures and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with U.S. Office of Management and Budget (OMB) Circular A-133.

As part of obtaining reasonable assurance about whether the County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about the County's compliance with the types of compliance requirements described in the "U.S. Office of Management and Budget Circular A-133 Compliance Supplement" applicable to each of its major federal programs for the purpose of expressing an opinion on the County's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the County's compliance with those requirements.

Mgt. Ltr.
2/6/09

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Other Information in Documents Containing the Audited Financial Statements

Our responsibility for other information in documents containing the audited financial statements is as follows:

- The Firm's responsibility for other information in documents containing the County's financial statements and reports does not extend beyond the financial information identified in the reports.
- The Firm does not have an obligation to perform any procedures to corroborate other information contained in those documents.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the County are described in the Notes to Basic Financial Statements including any new accounting policies adopted. We noted no transactions entered into by the County during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Investment Valuations
- Accumulated Depreciation
- Accrual for Workers' Compensation and General Liabilities
- Pension Plan Obligation

The disclosures in the financial statements are consistent and clear. Certain financial statement disclosures are particularly sensitive because of their significance to the financial statement users. The most sensitive disclosures affecting the financial statements were:

- Summary of Significant Accounting Policies
- Cash and investments
- Capital Assets
- Long-term debt
- Pension Plan
- Commitments and Contingencies
- Other Postemployment Benefits (OPEB) Plan

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. We proposed the following audit adjustments:

Fund	Account Description	DR	CR
Sanitation District	Buildings and Improvements	\$ 22,813	
Redevelopment Agency	General Expense	190,053	
Special Revenue	General Expense	15,738	
Capital Projects	General Expense	523,037	
Sanitation District	Payables		\$ 22,813
Redevelopment Agency	Payables		190,053
Special Revenue	Payables		15,738
Capital Projects	Payables		523,037
		<u>\$ 751,641</u>	<u>\$ 751,641</u>
To accrue expenses incurred in the fiscal year 07-08 that were paid in the fiscal year 08-09			
Public Financing Authority	Advances from Enterprise fund	\$ 1,910,000	
	Fund Balance		\$ 2,080,000
	Transfers In	170,000	
		<u>\$ 2,080,000</u>	<u>\$ 2,080,000</u>
To reclass advances of the County Disposal Sites to fund balance from the Public Financing Authority.			
County Disposal Sites	Long Term Debt	\$ 1,910,000	
	Advances payable		\$ 1,910,000
		<u>\$ 1,910,000</u>	<u>\$ 1,910,000</u>
To reclass long term debt of the County Disposal Sites to advances from the Public Financing Authority.			

To the Honorable Board of Supervisors
Santa Cruz, California
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Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letters. Signed copies are attached for your information.

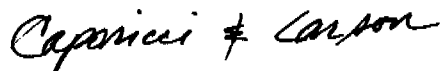
Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the County's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

* * * * *

This information is intended solely for the use of the Board of Supervisors and management of the County and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in cursive script that reads "Caporicci & Larson".

Caporicci & Larson, CPAs
Oakland, California



COUNTY OF SANTA CRUZ

MARY JO WALKER, AUDITOR-CONTROLLER

701 OCEAN STREET, SUITE 100, SANTA CRUZ, CA 95060-4073

(831) 454-2500 FAX (831) 454-2660

Edith Driscoll, Chief Deputy Auditor-Controller

Pam Silbaugh, Accounting Manager

Mark Huett, Audit and Systems Manager

December 23, 2008

Caporicci & Larson CPAs

9 Corporate Park, Suite 100

Irvine, CA 92606

We are providing this letter in connection with your audit of the basic financial statements of the County of Santa Cruz (County) as of June 30, 2008 and for the year then ended for the purpose of expressing an opinion as to whether the financial statements present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the County and the respective changes in financial position and cash flows, where applicable, in conformity with U.S. generally accepted accounting principles. We confirm that we are responsible for the fair presentation of the previously mentioned financial statements in conformity with U.S. generally accepted accounting principles. We are also responsible for adopting sound accounting policies, establishing and maintaining effective internal control, and preventing and detecting fraud.

We confirm, to the best of our knowledge and belief, as of December 23, 2008 the following representations made to you during your audit(s):

1. The basic financial statements referred to above are fairly presented in conformity with U.S. generally accepted accounting principles and include all properly classified funds and other financial information of the primary government and all component units required by generally accepted accounting principles to be included in the financial reporting entity.
2. We have made available to you all—
 - a. Financial records and related data and all audit or relevant monitoring reports, if any, received from funding sources;
 - b. Minutes of the meetings of the County or summaries of actions of recent meetings for which minutes have not yet been prepared.
3. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
4. There are no material transactions that have not been properly recorded in the accounting records underlying the financial statements and the schedule of expenditures of federal awards.
5. We believe the effects of any uncorrected financial statement misstatements summarized in the attached schedule are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.
6. We acknowledge our responsibility for the design and implementation of programs and controls to prevent and detect fraud.

7. We have no knowledge of any fraud or suspected fraud affecting the entity involving:
 - a. Management,
 - b. Employees who have significant roles in internal control, or
 - c. Others where the fraud could have a material effect on the financial statements.
8. We have no knowledge of any allegations of fraud or suspected fraud affecting the entity received in communications from employees, former employees, analysts, regulators, or others.
9. The County has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or equity.
10. The following, if any, have been properly recorded or disclosed in the financial statements:
 - a. Related party transactions, including revenues, expenditures/expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties.
 - b. Guarantees, whether written or oral, under which the County is contingently liable.
 - c. All accounting estimates, (including fair value measurements), that could be material to the financial statements, including the key factors and significant assumptions underlying those estimates and measurements. We believe the estimates and measurements are reasonable in the circumstances, consistently applied, and adequately disclosed
11. We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us, including tax or debt limits and debt contracts; and we have identified and disclosed to you all laws, regulations and provisions of contracts and grant agreements that we believe have a direct and material effect on the determination of financial statement amounts, including legal and contractual provisions for reporting specific activities in separate funds.
12. There are no—
 - a. Violations or possible violations of budget ordinances, laws and regulations (including those pertaining to adopting, approving, and amending budgets), provisions of contracts and grant agreements, tax or debt limits, and any related debt covenants whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.
 - b. Unasserted claims or assessments that our lawyer has advised us are probable of assertion and must be disclosed in accordance with Financial Accounting Standards Board (FASB) Statement No. 5, *Accounting for Contingencies*
 - c. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by FASB Statement No. 5.
 - d. Reservations or designation of fund equity that were not properly authorized and approved.

13. As part of your audit, you prepared the schedule of expenditures of federal awards. We have designated a competent employee to oversee your services and have made all management decisions and performed all management functions. We have reviewed, approved, and accepted responsibility for the schedule of expenditures of federal awards.
14. The County has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.
15. The County has complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
16. The financial statements include all component units as well as joint ventures with an equity interest, and properly disclose all other joint ventures and other related organizations.
17. The financial statements properly classify all funds and activities.
18. All funds that meet the quantitative criteria in GASB Statement No. 34 and 37 for presentation as major are identified and presented as such and all other funds that are presented as major are particularly important to financial statement users.
19. Net asset components (invested in capital assets, net of related debt; restricted; and unrestricted) and fund balance reserves and designations are properly classified and, if applicable, approved.
20. Provisions for uncollectible receivables have been properly identified and recorded.
21. Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.
22. Revenues are appropriately classified in the statement of activities within program revenues, general revenues, contributions to term or permanent endowments, or contributions to permanent fund principal.
23. Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.
24. Deposits and investment securities are properly classified as to risk.
25. Capital assets, including infrastructure assets, are properly capitalized, reported, and, if applicable, depreciated.
26. Required supplementary information (RSI) is measured and presented within prescribed guidelines.

27. With respect to federal award programs

- a. We are responsible for complying and have complied with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.
- b. We have, in accordance with OMB Circular A-133, identified in the schedule of expenditures of federal awards, expenditures made during the audit period for all awards provided by federal agencies in the form of grants, federal cost-reimbursement contracts, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, and other assistance.
- c. We are responsible for complying with the requirements of laws, regulations, and the provisions of contracts and grant agreements related to each of our federal programs and have identified and disclosed to you the requirements of laws, regulations, and the provisions of contracts and grant agreements that are considered to have a direct and material effect on each major federal program.
- d. We are responsible for establishing and maintaining effective internal control over compliance requirements applicable to federal programs that provides reasonable assurance that we are managing our federal awards in compliance with laws, regulations, and the provisions of contracts and grant agreements that could have a material effect on our federal programs. We believe the internal control system is adequate and is functioning as intended. Also, no changes have been made in the internal control system to the date of this letter that might significantly affect internal control, including any corrective action taken with regard to reportable conditions reported in the schedule of findings and questioned costs.
- e. We have made available to you all contracts and grant agreements (including amendments, if any) and any other correspondence with federal agencies or pass-through entities relating to each major federal program.
- f. We have received no requests from a federal agency to audit one or more specific programs as a major program.
- g. We have complied, in all material respects, with the compliance requirements, including when applicable, those set forth in the *OMB Circular A-133 Compliance Supplement*, relating to federal awards and have identified and disclosed to you all amounts questioned and any known noncompliance with the requirements of federal awards, including the results of other audits or program reviews.
- h. Amounts claimed or used for matching were determined in accordance with relevant guidelines in OMB Circular A-87, *Cost Principles for State, Local, and Tribal Governments*, and OMB's *Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments*.
- i. We have disclosed to you our interpretation of compliance requirements that may have varying interpretations.

- j. We have made available to you all documentation related to the compliance requirements, including information related to federal program financial reports and claims for advances and reimbursements.
- k. Federal program financial reports and claims for advances and reimbursements are supported by the books and records from which the financial statements have been prepared, and are prepared on a basis consistent with the schedule of expenditures of federal awards.
- l. The copies of federal program financial reports provided you are true copies of the reports submitted, or electronically transmitted, to the respective federal agency or pass-through entity, as applicable.
- m. We have monitored subrecipients to determine that they have expended pass-through assistance in accordance with applicable laws and regulations and have met the requirements of OMB Circular A-133.
- n. We have taken appropriate action on a timely basis after receipt of subrecipients' auditor's reports that identified noncompliance with laws, regulations, or the provisions of contracts or grant agreements to ensure that subrecipients have taken the appropriate and timely corrective action on findings.
- o. We have considered the results of subrecipient audits and have made any necessary adjustments to our books and records.
- p. We are responsible for and have accurately prepared the summary schedule of prior audit findings to include all findings required to be included by OMB Circular A-133 and we have provided you with all information on the status of the follow-up on prior audit findings by federal awarding agencies and pass-through entities, including all management decisions.
- q. We are responsible for and have accurately prepared the auditee section of the Data Collection Form as required by OMB Circular A-133, and we are responsible for preparing and implementing a corrective action plan for each audit finding.
- r. We have disclosed to you all contracts or other agreements with our service organizations, and we have disclosed to you all communications from the service organizations relating to noncompliance at the service organizations.

To the best of our knowledge and belief, no events, including instances of noncompliance, have occurred subsequent to the balance sheet date and through the date of this letter that would require adjustment to or disclosure in the aforementioned financial statements and in the schedule of findings and questioned costs.

Print Name	<u>MARY Jo WALKER</u>	Print Name	<u>Susan A. Mauriello</u>
Title	<u>AUDITOR-CONTROLLER</u>	Title	<u>County Administrative Officer</u>
Signature	<u>Mary Jo Walker</u>	Signature	<u>Susan A. Mauriello</u>

County of Santa Cruz

Summary of Audit Differences
Fiscal Year Ended June 30, 2008

Uncorrected Audit Differences:

NONE

Corrected Audit Adjusting Journal Entries:

As of June 30, 2008

Adjusting Entries

AJE #	Description	Debit	Credit
1	Buildings and Improvements - Sanitation	\$ 22,813.00	
	General Expense - Redevelopment Agency	190,053.00	
	General Expense - Special Revenue	15,738.00	
	General Expense - Capital Projects	523,037.00	
	Payables - Sanitation		\$ 22,813.00
	Payables - Redevelopment Agency		190,053.00
	Payables - Special Revenue		15,738.00
	Payables - Capital Projects		523,037.00
		<u>\$ 751,641.00</u>	<u>\$ 751,641.00</u>
	To properly accrue expenses found during the audit.		
2	Advances from Enterprise fund	\$ 1,910,000.00	
	Fund Balance		\$ 2,080,000.00
	Transfers In	170,000.00	
		<u>\$ 2,080,000.00</u>	<u>\$ 2,080,000.00</u>
	To reclass the advances of the County Disposal to fund balance from the Public Financing Authority.		
3	Long Term Debt	\$ 1,910,000.00	
	Advances payable		\$ 1,910,000.00
	To reclass the long term debt the of County Disposal Sites to advances from the Public Financing Authority.		